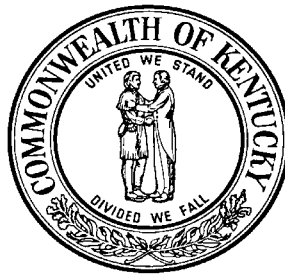


**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

August 20, 2002



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EDWARD B. HATCHETT, JR.
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To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Michael Patrick, Whitley County Judge/Executive

Honorable Ancil Carter, Whitley County Sheriff

Members of the Whitley County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Whitley County Sheriff's Settlement - 2001 Taxes and 2001 Unmined Coal Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Whitley County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

August 20, 2002

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND 2001 UNMINED COAL TAXES

August 20, 2002

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes for Whitley County Sheriff as of August 20, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,421,403 for the districts for 2001 taxes. The Sheriff distributed taxes of \$4,233,438 to the districts for 2001 Taxes. Taxes of \$5,628 are due to the districts from the Sheriff and refunds of \$3,972 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Deposits:

The Sheriff's deposits were insured or the depository institutions pledged or provide sufficient collateral to protect the deposits.

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In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Whitley County Sheriff's taxes charged, credited, and paid as of August 20, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Michael Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
Members of the Whitley County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
September 27, 2002

WHITLEY COUNTY
 ANCIL CARTER, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

August 20, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 521,027	\$ 596,351	\$ 1,607,266	\$ 854,451
Tangible	83,287	102,605	144,353	284,513
Intangible				76,425
Fire Acreage	4,178			
Additional Tax Bills	1,655	1,890	7,084	2,513
Oil, Gas, Limestone, Sand, and Gravel Taxes	9,296	10,640	44,353	15,232
Correcting Erroneous Tax Assessments	67	65	106	109
Penalties and Interest	3,417	3,896	11,949	5,897
Franchise Corporation Taxes	88,820	105,110	321,154	
Gross Chargeable to Sheriff	<u>\$ 711,747</u>	<u>\$ 820,557</u>	<u>\$ 2,136,265</u>	<u>\$ 1,239,140</u>
<u>Credits</u>				
Exonerations	\$ 15,741	\$ 17,746	\$ 68,707	\$ 25,520
Delinquents	41,939	47,745	131,106	73,290
Discounts	<u>9,347</u>	<u>10,772</u>	<u>25,747</u>	<u>19,414</u>
Total Credits	<u>\$ 67,027</u>	<u>\$ 76,263</u>	<u>\$ 225,560</u>	<u>\$ 118,224</u>
Net Tax Yield	\$ 644,720	\$ 744,294	\$ 1,910,705	\$ 1,120,916
Less: Commissions*	<u>27,688</u>	<u>31,633</u>	<u>76,428</u>	<u>47,926</u>
Taxes Due Districts	\$ 617,032	\$ 712,661	\$ 1,834,277	\$ 1,072,990
Less: Taxes Paid	616,670	711,706	1,908,559	1,072,194
Less: Refunds (Current and Prior Year)	378	654	1,023	548
Add: Commission Refunded From Schools To Sheriff			<u>76,428</u>	
		**	***	
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (16)</u>	<u>\$ 301</u>	<u>\$ 1,123</u>	<u>\$ 248</u>

*, **, and *** See Page 4.

WHITLEY COUNTY
 ANCIL CARTER, SHERIFF
 SHERIFF'S SETTLEMENT - 2001 TAXES
 August 20, 2002
 (Continued)

*Commissions:	10% on	\$	10,000
	4.25% on	\$	2,499,930
	4% on	\$	1,910,705

**Special Taxing Districts:

Library District	\$	94
Health District		4,121
Extension Service District		(3,956)
Soil Conservation District		42
		<hr/>

Due Districts or (Refund Due Sheriff)	\$	<u>301</u>
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***School Districts:

Common School District	\$	1,065
Corbin Independent District		58
		<hr/>

Due Districts	\$	<u>1,123</u>
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WHITLEY COUNTY
 ANCIL CARTER, SHERIFF
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES

August 20, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 92	\$ 105	\$ 437	\$ 150
Gross Chargeable to Sheriff	\$ 92	\$ 105	\$ 437	\$ 150
<u>Credits</u>				
Discounts	\$ 2	\$ 2	\$ 9	\$ 3
Total Credits	\$ 2	\$ 2	\$ 9	\$ 3
Net Tax Yield	\$ 90	\$ 103	\$ 428	\$ 147
Less: Commissions*	4	4	17	6
Taxes Due Districts	\$ 86	\$ 99	\$ 411	\$ 141
Less: Taxes Paid	86	99	428	141
Add: Commission Refunded From Schools To Sheriff			17	
Due Districts as of Completion of Fieldwork	\$ 0	\$ 0	\$ 0	\$ 0

*Commissions:

4.25% on \$340

4.00% on \$428

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

August 20, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 12, 2001, the Sheriff deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
August 20, 2002
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2001 through June 28, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 26, 2001 through June 28, 2002.

Note 4. Interest Income

The Whitley County Sheriff earned \$1,247 as interest income on 2001 taxes. As of September 27, 2002, the Sheriff is due a refund in interest of \$73 from the Common School District and the Sheriff owes interest of \$57 to the Corbin Independent District and \$358 to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Whitley County Sheriff collected \$15,695 of 10% add-on fees allowed by KRS 134.430(3). As of September 27, 2002, the Sheriff owes \$894 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Whitley County Sheriff collected \$546 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Nonrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any nonrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the Sheriff had \$1,994 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENT AND RECOMMENDATION

WHITLEY COUNTY
ANCIL CARTER, SHERIFF
COMMENT AND RECOMMENDATION

August 20, 2002

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "...that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest be transferred to the Sheriff's fee account. During 2001 tax collections, Sheriff Carter earned interest of \$1,247 on his tax account. However, Sheriff Carter did not pay the interest to the board of education or the fee account on a monthly basis. As of September 27, 2002, Sheriff Carter owes the Corbin Independent Board of Education \$57 and is due a refund in interest of \$73 from the Common School District. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response:

OK.

PRIOR YEAR COMMENT:

The Sheriff should require depository institutions to pledge or provide sufficient collateral to protect deposits. This was corrected.

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REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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National Association of Tax Professionals
National Association of Certified Fraud Examiners
National Association of Public Accountants
National Association of Government Auditors
National Association of Government Auditors

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Members of the Whitley County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the Whitley County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 20, 2002, and have issued our report thereon dated September 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 20, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards, which is described in the accompanying comment and recommendation.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Whitley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

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Berger & Ross, PLLC

Audit fieldwork completed -
September 27, 2002

